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Surveys of Consumers

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CONFIDENCE REBOUND: SIGH OF RELIEF MORE THAN SIGN OF OPTIMISM

- The Index of Consumer Sentiment was 91.6 in the February 1988 survey, just above the 90.8 recorded in January, and significantly above the post-crash low of 83.1 recorded in November 1987. This rebound has brought the Index to just above the year earlier reading of 90.2. That the worst fears spawned by Black Monday were not confirmed by subsequent developments has fueled this rebound; it represents more of a sense of relief than a sense of renewed optimism. Although the crisis atmosphere has cleared, consumers do not expect much more than a continuation of the slow pace of expansion in the national economy.

- Among families with incomes of $30,000 or more the Index stood at 98.1 in the February 1988 survey, just below the 99.0 recorded one month earlier. This marks a significant improvement from the November low of 87.7, although it still remains below the year earlier figure of 103.6.

- The majority of families in the February 1988 survey (58 percent) expected that the performance of the national economy would remain unchanged during the year ahead. Many fewer families expected the economy to either improve (23 percent) or worsen (17 percent). These prospects were judged to mean the continuation of good times financially in the country as a whole by 45 percent of all families in the February 1988 survey. While this is an improvement over the post-crash low of 38 percent recorded in November 1987, it remains below the 53 percent recorded in February 1987.

- When asked about prospects for the domestic economy over the longer term, the balance of opinion pointed toward the expectation of bad times. Whereas for the year ahead more families expected good rather than bad times by the margin of 45 to 37 percent, over the longer term more families expected bad rather than good times by the margin of 45 to 35 percent.

- The most distinctive aspect of trends over the past few years is the wide divergence in consumers' views of prospects for their own personal financial situation and prospects for the economy as a whole. In contrast to the erosion of favorable assessments of the outlook for the national economy, personal financial evaluations have remained at very favorable levels.

- In the February 1988 survey, 47 percent of all families reported that their financial situation had improved, up from 44 percent one year earlier. This represents a very favorable assessment, as it is only slightly below the recent cyclical peak of 49 percent. Income increases were cited more frequently by families in the February 1988 survey than a year earlier (39, up from 35 percent), and declines in family incomes were mentioned less frequently (13, down from 20 percent).

- Consumers continue to hold favorable views about their financial prospects for the year ahead. In the February 1988 survey, 39 percent of all families expected their financial situation to improve during the year ahead, just above the 38 percent recorded both one month and one year earlier. Importantly, just 9 percent of all families expected their financial situation to worsen in the February 1988 survey, down from 13 percent one year earlier. Income increases were expected by 63 percent of all families in February, just ahead of the 59 percent that expected increases one year earlier.

- In the aftermath of the crash, consumers have become more willing to use their accumulated savings in order to make a major purchase, but have not become more willing to incur new debt. Willingness to use savings was reported by 34 percent in February 1988, up sharply from the 24 percent recorded in November 1987. Among all families, 21 percent were willing to incur new debt in the February 1988 survey, barely above the 20 percent recorded in November 1987.

- No change was recorded from the January to February 1988 surveys in the proportion of families that held favorable attitudes toward buying conditions for vehicles (59 percent), homes (67 percent), and large household durables (72 percent)—a rare statistical result to be sure! Attitudes toward buying conditions in each market have improved since the November lows, but have not completely regained their year earlier levels. Although attitudes toward buying conditions for vehicles and large household durables were only slightly less favorable, home buying attitudes were significantly less favorable in the February 1988 survey than one year earlier.

- The proportion of families holding favorable attitudes toward home buying conditions fell to 67 percent in the February 1988 survey from 81 percent one year earlier. The entire decline can be traced to less favorable views of mortgage interest rates. Favorable references to current mortgage rates fell to 44 percent in February 1988 from 68 percent one year earlier, while complaints about high mortgage rates rose to 15 from 6 percent. While this represents a significant erosion of favorable assessments, home buying attitudes nonetheless remain relatively positive.

- Favorable attitudes toward vehicle buying conditions were held by 59 percent of all families in the February 1988 survey, slightly below the 62 percent recorded one year earlier. Many fewer families cited the availability of discounted interest rates offered by vehicle manufactures in the February 1988 survey than one year earlier (20, down from 36 percent). Although as many families reported the availability of discounted prices in February 1988 as in February 1987 (30 versus 29 percent), more families complained about high vehicle prices in the February 1988 survey than one year earlier (20, up from 13 percent).

- Favorable attitudes toward buying conditions for appliances, furniture, and household electronic goods were held by 72 percent of all families in the February 1988 survey, just below the 73 percent recorded one year earlier. Favorable views of market prices continue to underpin these positive assessments—reported by 36 percent of all families in the February 1988 survey, just above the 33 percent recorded one year earlier. Only 5 percent of all families complained about high prices for these household durables.

- Interest rate increases were expected by 44 percent of all families in the February 1988 survey, down from 54 percent one month earlier, while the proportion that expected declines rose to 21 from 12 percent. This improvement returned interest rate expectations to the levels recorded one year earlier, when increases were expected by 44 percent, compared with 17 percent that expected declines.

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The February 1988 survey was conducted between February 1 and February 26, 1988 and included 500 completed interviews.